Melcor Developments Ltd. 1980 Annual Report

Contents

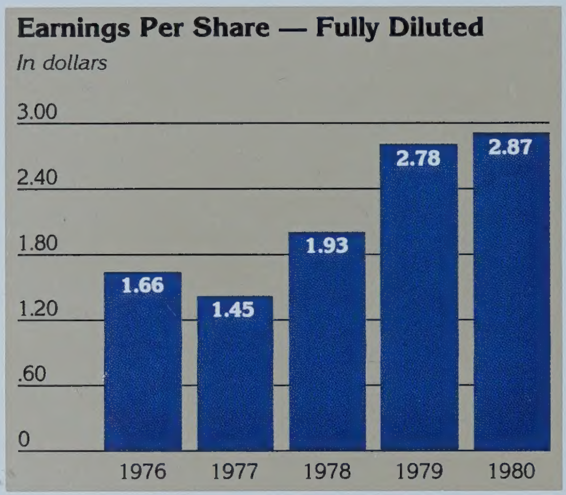
Melcor is primarily engaged in three activities:

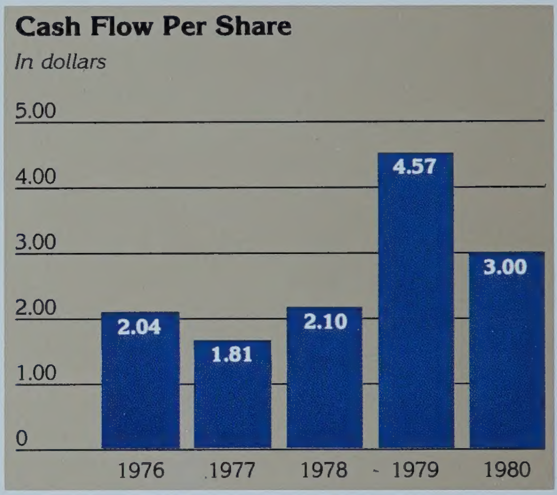
- the acquisition of land for development and sale of residential and industrial subdivisions.
- building and marketing single family housing.
- the acquisition and/or development of income-producing properties for retention in our portfolio.

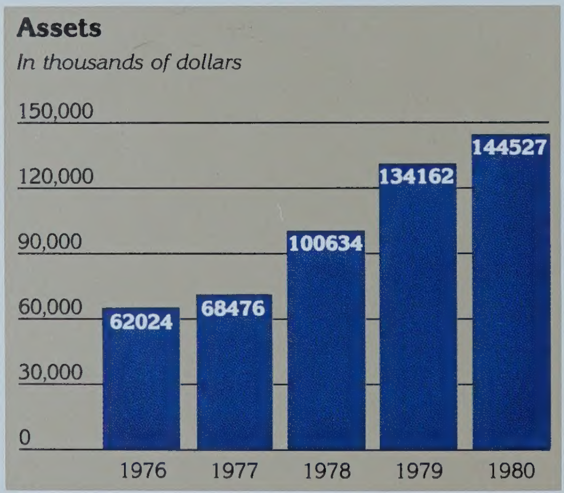
The company's current activities are concentrated in the regions of Edmonton, Calgary, Red Deer, Regina, Phoenix, Arizona and Southern California.

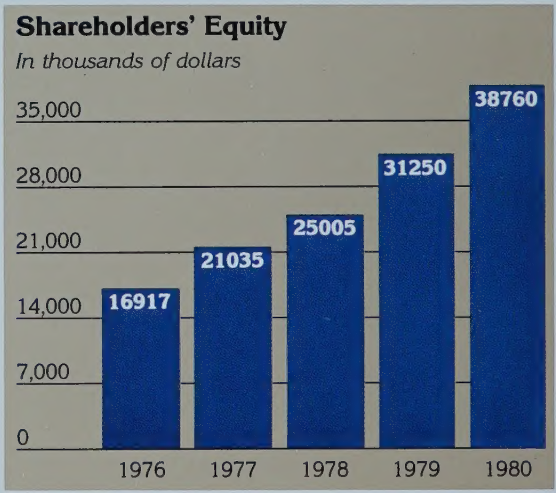
Financial Highlights

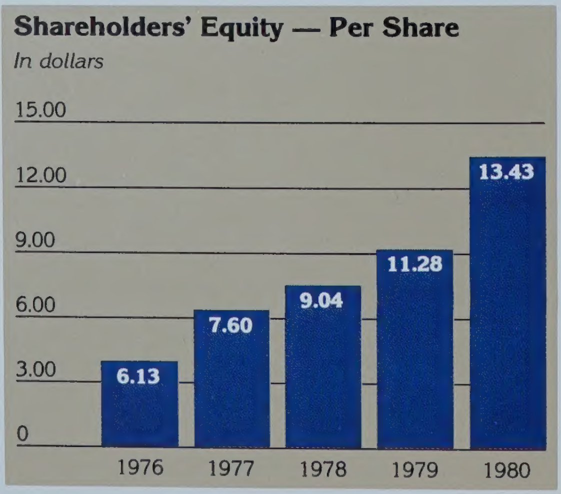
	1980	1979
Total Assets	$144,527,000	$134,162,000
Shareholders' Equity	$ 38,760,000	$ 31,250,000
Gross Income	$ 60,075,000	$ 54,044,000
Earnings Per Share	$ 2.87	$ 2.78
Cash Flow Per Share	$ 3.00	$ 4.57

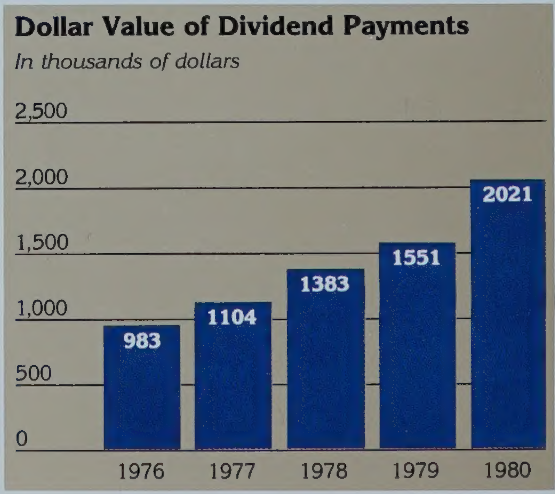












Report to Shareholders

We are pleased to report that earnings for 1980 were $8.2 million or $2.87 per share, compared with 1979 earnings of $7.7 million, or $2.78 per share. This increase in earnings was achieved despite extremely high interest rates which had a very negative effect on the real estate industry, decreasing the demand for housing and increasing our interest expense.

The land division contributed the major proportion of our earnings. In addition to a successful year in terms of sales and income, significant acquisitions were made in Calgary, Edmonton and California. Major planning approvals for future development were obtained in several areas and our U.S. operations made their first contribution to earnings.

Housing operations, which were severely impacted by high interest rates, had a small loss for the year. The outlook for 1981 is for some improvement, the level of which will be dependent upon the public's acceptance of higher mortgage interest rates.

We are continuing our efforts to obtain a higher percentage of earnings from rentals through the development and retention of income properties. While revenues increased substantially in 1980, income showed only a moderate increase over the prior year. Higher occupancy levels in our newer developments are expected to produce increased earnings in 1981.

More detailed reports on operations are provided elsewhere in this annual report.

Based upon an evaluation of company assets carried out by management, the market value exceeds book value by $131.8 million at December 31, 1980. After deduction of income taxes at current rates, this unrealized gain would increase the shareholders' equity to $106.2 million or $36.79 per share.

For 1981, your Directors have approved the payment of a semi-annual dividend of $.35 per share on June 15, 1981 to shareholders of record at June 1, 1981.

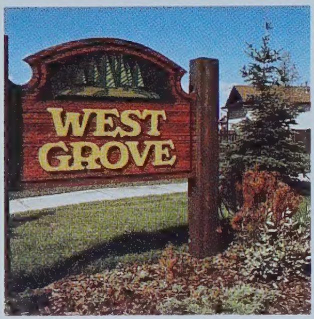
The shareholders' meeting of November 28, 1980 approved the amalgamation of the Company with its wholly-owned subsidiary, Melcor Homes Ltd., which became effective January 2, 1981. In additional an increase in the authorized share capital from three million to ten million shares was also approved.

While high levels of inflation and interest rates have carried over into 1981, our operations are located in regions of above average growth, and we believe that 1981 will be a satisfactory year in growth of assets and earnings for the company.

On Behalf of the Board of Directors

T.C. Melton
President
March 20, 1981

Land Development



Despite high interest rates and low housing demand, 1980 was another successful year for the Land Development Division:

- Overall earnings were at a new high.
- For the first time, earnings were achieved by our U.S. operation.
- Annexation approvals were obtained in Cochrane and pending in Edmonton, Calgary and Spruce Grove.
- Major planning approvals were obtained in Spruce Grove, Sherwood Park, Red Deer, Calgary and Lethbridge.
- Our first land acquisition was made in California.
- Melcor participated in major land assemblies in northeast Calgary (480 acres), northeast Edmonton (440 total acres) and California (620 acres).
- During 1981, Melcor made additional land acquisitions in Phoenix and Tucson, Arizona as well as Spruce Grove, Alberta.

Our regional highlights are outlined below.

Edmonton

In West Edmonton, 43 lots and a 3.2-acre apartment site in our Summerlea subdivision were sold, leaving 8 lots for sale in 1981.

Acquisitions for the year included 210 acres of future residential land in a proposed annexation area northeast of Edmonton, giving Melcor a total of 440 acres in this assembly. The City of Edmonton annexation proposal, which is currently before the provincial cabinet, affects Melcor's land holdings in northeast Edmonton, Sherwood Park and Josephburg.

Spruce Grove

The remaining 22 lots in Westgrove Stage I were sold in 1980 as were 82 of the 107 lots in Stage II. 1980 sales of industrial land in our Yellowhead Business/Industrial Park totalled 57 acres, leaving 8 acres for sale in 1981. Early in 1981, we purchased 147 acres for future residential development as well as 265 acres for future industrial development within the Town boundaries to consolidate our development holdings.

The completion of planning studies for our undeveloped residential land within the Town will enable us to commence development of these lands in 1981. This area envisages a comprehensive community with golf course, and will be developed over the next ten years.

Westgrove continues to attract builders and new home buyers. Aerial view of Westgrove subdivision in Spruce Grove, Alberta.

Land Development

Leduc

In our Southpark subdivision, sales were less than anticipated. 25 lots were sold, leaving 75 to be marketed in 1981. Work is progressing on our future residential and industrial land holdings in the Town.

County of Strathcona

Planning approval was received for the first phase of our development in Sherwood Park. Servicing is scheduled to commence in 1981 with sales anticipated in 1981 or early 1982.

An additional 80 acres were purchased adjacent to the Hamlet of Josephburg for future residential land development.

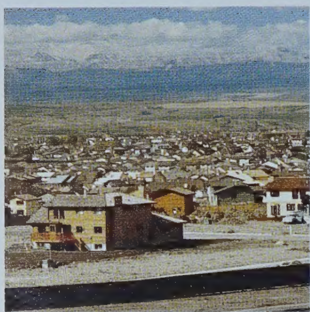
Red Deer

In Eastview, a joint venture with Cairns Homes Ltd., planning approvals were received and servicing of 134 lots has commenced.

Meanwhile, in Blackfalds, a development agreement was signed and servicing of 98 lots will commence later this year. A Red Deer regional office is planned for 1981.

Summerlea features moderate-priced housing in cottage-style neighbourhood. Aerial view of Summerlea in West Edmonton.

Land Development



Calgary

Sales continued to be strong in Ranchlands with the final phase of 171 lots and 3.6 acres of multi-family sold to builders and the remaining 31 lots transferred to our housing division.

In the new community of Hawkwood, development commenced with the first phase of 116 lots going to market in the spring of 1981 followed by phases two and three in the second half of 1981.

Final development approvals for the Crowfoot Employment Centre, a 150-acre, mixed-use commercial, office and retail development, are anticipated in 1981. In Balzac, north of Calgary, planning approval for the development of a 683-acre industrial business park continued. Although approval continues to be hampered by planning authorities, land values in the area have increased significantly.

During the year, we obtained options on 480 acres adjoining the northeast boundary of Calgary, of which 320 are located in the Northridge annexation area. An application for annexation, in conjunction with other owners, has already been submitted.

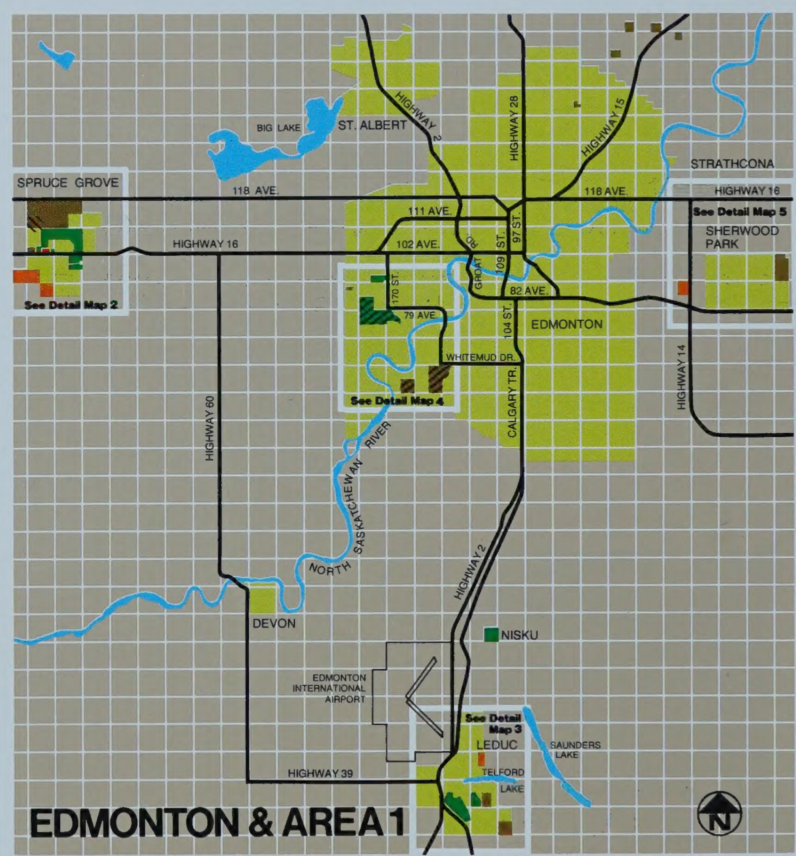
Land being held for future industrial development.

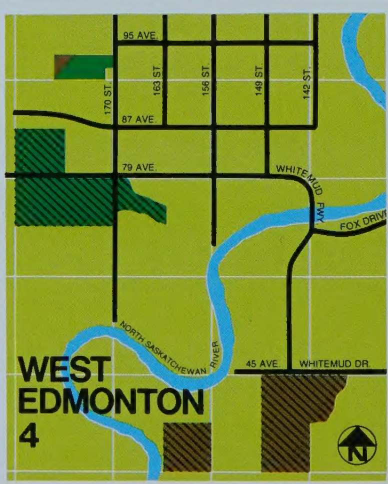
Land being held for future commercial development.

Land being held for future residential and residential land presently under development.

Developed land.

Partial interest.





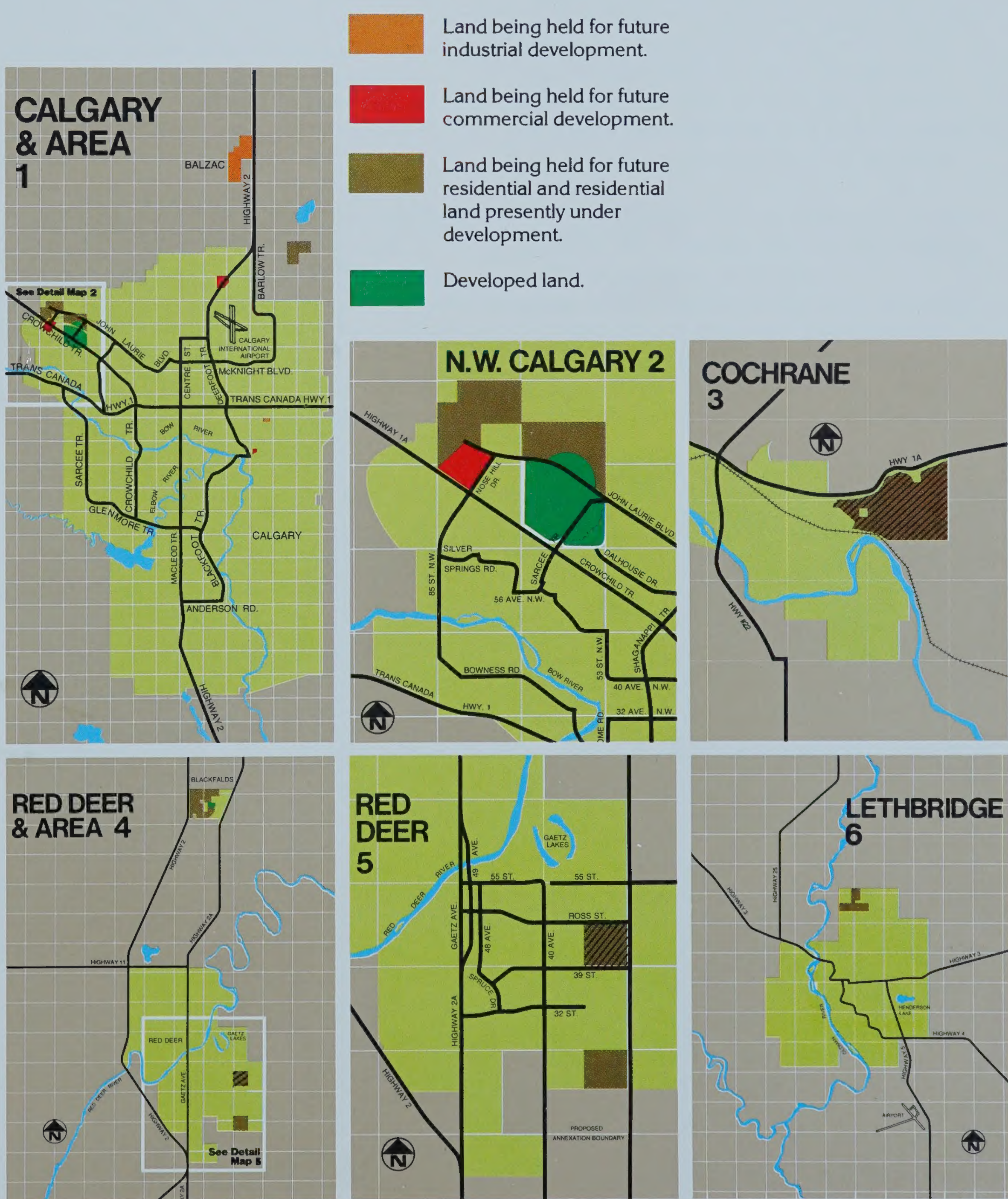
Top: A magnificent view of the Rockies from our Ranchlands subdivision. Bottom: Final phase of Ranchlands under construction.

Cochrane

During 1980, an additional 74 acres of land adjoining our 506-acre parcel were purchased. The total holdings of 580 acres, in which Melcor holds a 50% interest, have been annexed to the Town. Planning approvals are currently in progress and we anticipate that development will commence in 1982.

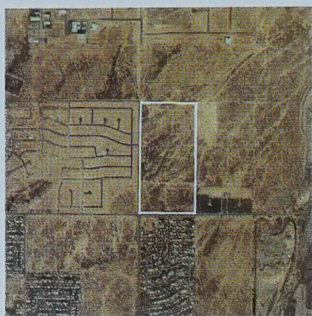
Lethbridge

Approval for an Area Structure Plan was obtained for the area in which we own 200 acres. Installation of major services by the City will commence in 1981 with development and marketing of the first phase expected in 1982.



Top: Boundary showing Melcor land holdings in Cochrane.

Land Development



Phoenix

Sales in 1980 included 153 serviced lots in North Phoenix, as well as 60 acres for a resort development adjoining our holdings in Southeast Phoenix. Further development approvals have been obtained to service and market 464 lots in 1981. Acquisitions in 1981 include 100 acres in Phoenix and 148 acres adjacent to Tucson — both for residential development, plus 2.84 acres in Phoenix for office development.

California

Planning and zoning approvals on our 620-acre parcel in the Chino Hills area of San Bernardino County are expected to be completed in 1981 and, if successful, will allow us to commence development in 1982.

Top: La Crescenta, Phoenix, Melcor's first lot servicing program in the U.S.

Melcor Homes

Despite adverse market conditions, housing revenues were $25.1 million in 1980, an increase of 41% from 1979. Sales of 235 homes were made, an increase of 33 units over 1979.

Melcor Homes sustained a level of operations in 1980 which leaves it in an excellent position to react to market conditions in 1981. Housing starts in 1980 were 211 units, with the resultant reduction in inventory of houses under construction at year end to 168 units as compared to 192 at the end of 1979.

The Edmonton region produced a net loss for the year resulting from high carrying costs and a very competitive housing market that featured excessive inventories of new and resale homes. Margins were sacrificed to bring our inventory of new homes to acceptable levels.

In our first full year of operation in Saskatoon, we achieved 10 sales closings and established an inventory position which we believe will enable us to make further gains in this area in 1981. In Regina, budgeted margins were realized on sales, although projected unit sales were not reached because of lower than anticipated absorption rates for new homes.

Red Deer's contribution to 1980 earnings was lower than in previous years. Budgeted margins were achieved on houses sold; however, a shortfall in completed units available for sale reduced our market share.

The Calgary housing market continued to be a bright spot for Melcor's housing activity throughout 1980. Continued growth of the Calgary area, reasonable inventory levels and strong production activity provided excellent returns to the company.

In looking ahead, we foresee a strong demand for housing in both Alberta and Saskatchewan. Lower mortgage rates (or consumer acceptance of present rates) and a stabilization of the political and economic climate surrounding natural resource development in Western Canada, are necessary to stimulate the housing industry.

In response to the uncertain short-term outlook, we have adjusted our operations and are carefully managing our inventories of building lots and housing construction in progress. Earnings are projected to increase in 1981 and the housing division is positioned to react positively to trends in the marketplace.

Top: Melcor takes great care in creating homes for today's lifestyle.
Right: Westgrove Sales Centre, where new home buyers learn all about Melcor Homes.

Investment Properties

The year of 1980 was again a successful one for the Investment Properties Division.

In Calgary, a further 85,000 sq. ft. of office-warehouse development in Franklin Park was completed and is already substantially leased. Development of the final phase involving 45,000 sq. ft. will commence in mid 1981, giving the project a combined total of 230,000 sq. ft. when completed.

In addition, two new sites were acquired for future office buildings. We sold a 50% interest in 24 acres located in northeast Calgary on which we have received approval for the phased development of a 1.5 million sq .ft. office park, including hotel and retail facilities.

In the Edmonton region, development approvals have been obtained for a 400,000 sq. ft. office building. A decision on the starting date is pending. Acquisitions in 1980 included two sites for future development and, in 1981, we purchased the remaining interest of our partner in the proposed shopping centre in Spruce Grove. Development of this 110,000 sq. ft. project is expected to commence within the year.

In Regina, construction is underway on the first phase of a 40,000 sq. ft. neighbourhood shopping centre in the University Park area.

The Division's portfolio of income-producing properties continues to grow and provide a return for the Company.

Top: Proposed office development at 108 Street in Edmonton's government district.
Bottom: Architect's model of the Panorama Office Park, a proposed mixed-use, office/commercial, and retail development in Calgary.

Consolidated Statement of Income and Retained Earnings

(In thousands of dollars)		Year Ended December 31 1980	1979
Revenue	Land	$ 28,034	$ 32,888
	Housing	25,152	17,831
	Investment properties	3,312	1,976
	Interest on agreements receivable	2,824	1,077
	Gain on sale of investment property	580	—
	Other	173	272
		60,075	54,044
Expenses	Land	11,556	17,578
	Housing	23,163	16,024
	Investment properties	1,482	862
	Interest — Note 11	3,332	1,504
	General and administrative — Note 12	4,157	3,320
	Depreciation	238	135
		43,928	39,423
Income Before Income Taxes	Income before income taxes	16,147	14,621
Income Taxes	Current	6,570	1,951
	Deferred	1,386	4,914
		7,956	6,865
Net Income	Net income for the year	8,191	7,756
Retained Earnings	Retained earnings, beginning of the year	28,251	22,046
		36,442	29,802
	Dividends	2,021	1,551
	Retained earnings, end of the year	$ 34,421	$ 28,251
Per Share	Earnings per share	$ 2.87	$ 2.78

Consolidated Balance Sheet

(In thousands of dollars)		December 31 1980	1979
Assets	Agreements receivable	$ 21,664	$ 25,900
	Accounts receivable — Note 2	2,585	755
	Income taxes recoverable	—	1,166
	Land for development and sale — Note 3	84,035	74,597
	Investment properties — Note 4	35,769	31,322
	Other assets	474	422
		$144,527	$134,162

Approved on Behalf of The Board

T.C. Melton

T.C. Melton *Director*

W.G. Holmes

W.G. Holmes *Director*

(In thousands of dollars)		December 31 1980	1979
Liabilities	Bank indebtedness — Note 5	**$ 20,038**	$ 17,911
	Accounts payable	**4,427**	4,684
	Income taxes payable	**5,011**	—
	Deposit	**—**	2,300
	Provision for land development costs	**6,018**	8,032
	Debt on land for development and sale — Note 7	**39,781**	43,497
	Debt on investment properties — Note 8	**20,210**	17,592
	Deferred income taxes — Note 9	**10,282**	8,896
		105,767	102,912
Shareholders' Equity	Share capital — Note 10	**4,339**	2,999
	Retained earnings	**34,421**	28,251
		38,760	31,250
		$144,527	$134,162

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Melcor Developments Ltd. as at December 31, 1980 and the consolidated statements of income and retained earnings and source and use of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the source and use of its cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants
March 12, 1981

Consolidated Statement of Source and Use of Cash

(In thousands of dollars)		Year Ended December 31 1980	1979
Source of Cash	Operations	$ 8,656	$12,805
	Sale of investment properties	881	—
	Agreements receivable	4,054	—
	Note receivable	—	1,840
	Proceeds from debt on land for development and sale and housing	8,897	24,520
	Proceeds from debt on investment properties	5,067	5,445
	Deposit	—	2,300
	Share capital	192	40
	Net increase (decrease) in other operating assets and liabilities	5,979	(846)
		33,726	46,104
Application of Cash	Agreements receivable	—	14,711
	Land for development and sale, net of the changes in the provision for development costs	11,583	13,800
	Investment properties	7,186	9,403
	Payments on debt on land for development and sale	12,613	10,176
	Payments on debt on investment properties	2,450	652
	Dividends	2,021	1,551
		35,853	50,293
	Decrease in cash during the year	2,127	4,189
	Bank indebtedness, beginning of the year	17,911	13,722
	Bank indebtedness, end of the year	$20,038	$17,911

Notes to Consolidated Financial Statements

For the year ended December 31, 1980

1. Accounting Policies

(a) General

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies. The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.

(b) Consolidation

The consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies as follows:

Melcor Homes Ltd.
Trans-Canada Mortgage Ltd.
Trans-Canada Joint Mortgages Corporation Ltd.
Melcor Inc. and its wholly-owned subsidiaries:

Melcor Developments Arizona Inc.
California Melcor Inc.

(ii) The accounts of those unincorporated joint ventures in which the company holds at least a 50% interest, to the extent of the company's interest in their respective assets, liabilities, revenues and expenses.

(c) Recognition of Income

Income is recognized as follows:

(i) Sale of land — when a minimum of 15% of the sale price has been received and the sale is unconditional.

(ii) Sale of houses — when the purchaser is entitled to possession and the closing funds have been received by the company.

(iii) Investment properties — rental income is recognized after the property has reached a 75% level of occupancy, subject to a reasonable period dependent upon the size of the project. Prior to achieving this level, rental revenue and operating costs are capitalized as part of the cost of the project.

(d) Capitalization of Costs

The company capitalizes all direct costs relating to projects under development and being held for development. In addition, carrying costs such as interest on debt specifically related to the project, property taxes and interest on general debt deemed applicable to the investment in the project are capitalized. Administrative overhead expenses are not capitalized by the company.

(e) Land for Development and Sale

(i) Land for development and sale is recorded at the lower of cost and net realizable value.

(ii) The cost of land is pro-rated to each phase of a project on an acreage basis at the time the company enters into a development agreement with the respective municipality.

(iii) The total estimated servicing and development costs are recorded as a liability at the time the first sales from a project are made. The unexpended portion of these costs is shown as "Provision for land development costs" on the balance sheet.

(iv) The total costs of a project are allocated to individual lots on the basis of anticipated selling prices.

(f) Investment Properties

Operating properties are recorded at cost less accumulated depreciation. Buildings are depreciated using the sinking fund method based upon an estimated useful life of 50 years. Under this method annual depreciation charges increase 5% per year.

Properties under development and for development and sale are recorded at the lower of cost and net realizable value.

(g) Depreciation of Other Fixed Assets

Other fixed assets are depreciated using the declining balance or straight-line method of depreciation.

(h) Foreign Exchange

Asset and liability accounts of foreign subsidiaries are translated into Canadian dollars at the rate of exchange in effect at the balance sheet dates. Revenues and expenses are translated at rates in effect at the dates of the transactions. Gains or losses from exchange translations are included in the consolidated statement of income.

2. Accounts Receivable

Included in accounts receivable is $1,165,000 in respect of share purchases by officers and senior employees of the company.

3. Land for Development and Sale

(In thousands of dollars)	1980	1979
Land		
Land for development and sale		
Land	$45,578	$37,798
Carrying and pre-development costs	17,512	9,230
Option deposits	422	78
	63,512	47,106
Land under development or developed		
Land	1,142	2,432
Development costs	3,975	7,995
Carrying costs	577	935
	5,694	11,362
	69,206	58,468
Housing		
Land for future construction	4,002	5,547
Construction in progress	10,827	10,582
	14,829	16,129
	$84,035	$74,597

The majority of the land has been acquired by agreement for sale. Title to this land will be obtained when payment on the agreement is made.

4. Investment Properties

(In thousands of dollars)	1980	1979
Operating Properties		
Land	$ 2,523	$ 2,008
Buildings and equipment	15,836	13,604
	18,359	15,612
Accumulated depreciation	404	323
	17,955	15,289
Properties Under Development		
Land	230	548
Construction costs	3,981	4,610
	4,211	5,158
Properties for Future Development		
Land	10,900	9,765
Carrying and pre-development costs	2,593	1,060
Deposits	110	50
	13,603	10,875
	$35,769	$31,322

5. Bank Indebtedness

The company has created demand debentures which are pledged to secure amounts owing or which may become owing to its bankers from time to time. These debentures are secured by way of a fixed charge on certain assets of the company. The company's bankers also hold a general assignment of accounts receivable and a floating charge over other assets of the company.

6. Joint Ventures

The company's proportionate share of the assets and liabilities of joint ventures is:

(In thousands of dollars)	1980	1979
Assets		
Land for development and sale — at cost	$3,191	$1,286
Liabilities		
Term bank loan	$ 450	$ 450
Agreement payable	481	641
	$ 931	$1,091

The company is contingently liable for the total liabilities of joint ventures in the amount of $1,862,000; however, the value of the assets of the joint ventures is sufficient to satisfy these liabilities.

7. Debt on Land for Development and Sale

(In thousands of dollars)	1980	1979
Land for Development and Sale		
Agreements and mortgages payable including accrued interest of $734,000 (1979 - $994,000)	$24,397	$24,541
Term and project bank loans, due 1982, interest at prime plus 1% (19¼% at December 31, 1980)	6,965	10,400
	31,362	34,941
Housing		
Agreements payable on land for housing	1,054	2,045
Agreements payable and mortgage advances on construction in progress	7,365	6,511
	8,419	8,556
	$39,781	$43,497

Principal payments due within the next five years on agreements and mortgages payable on land for development and sale are as follows:

(In thousands of dollars)	
1981	$ 4,878
1982	4,159
1983	3,327
1984	3,431
1985	2,042
	$17,837
Average annual interest rate	9.26%

Principal payments in excess of the amounts due may be made in order to obtain title, if title is required to initiate development of the land.

Agreements payable on housing are repayable in 1981 and bear interest at rates from 12% to 19¼%. Mortgage advances will be assumed by purchasers upon sale of the housing units.

8. Debt on Investment Properties

(In thousands of dollars)	1980	1979
Mortgages payable on operating properties	$13,475	$11,057
Mortgages payable on properties under development	—	2,250
Term bank loans on properties for future development, due 1982, interest at prime plus 1% (19¼% at December 31, 1980)	4,940	3,340
Agreements payable on properties for future development	1,795	945
	$20,210	$17,592

Principal payments due within the next five years on mortgages and agreements payable are as follows:

(In thousands of dollars)	Mortgages	Agreements
1981	$ 343	$ 309
1982	145	398
1983	160	190
1984	176	167
1985	194	188
	$1,018	$1,252
Average annual interest rate	10.27%	11.53%

9. Deferred Income Taxes

On a cumulative basis, income taxes have been deferred as a result of the following:

(In thousands of dollars)	1980	1979
Deferring profits on the sale of land for income tax purposes	$ 3,406	$ 4,227
Interest and property taxes on land for development and sale deducted for income tax purposes	3,356	1,994
Depreciation deducted for income tax purposes in excess of the amount recorded in the accounts	1,403	1,130
Interest and property taxes on investment properties deducted for income tax purposes	2,059	1,439
Other items	58	106
	$10,282	$ 8,896

10. Share Capital

Authorized — 10,000,000 (1979 — 3,000,000) shares of no par value.

Issued	Shares	Consideration
December 31, 1979	2,770,303	$2,999,000
Officer and employee share purchases	116,750	1,340,000
December 31, 1980	2,887,053	$4,339,000

Common shares are reserved for issue pursuant to the following:

(a) 13,000 shares under an option to an officer enabling him to purchase shares at $9.90 per share to August 7, 1983.

(b) 1,950 shares under options to senior employees enabling them to purchase 900 shares in 1981 and 1,050 shares in 1982 at $12.71 per share.

11. Interest

(In thousands of dollars)	1980	1979
Interest on bank indebtedness	$2,789	$1,781
Interest on debt on land for development and sale	3,896	2,267
Interest on debt on investment properties	2,141	1,985
	8,826	6,033
Less interest capitalized:		
Land for development and sale	4,386	3,120
Investment properties under development and for development	1,108	1,409
	5,494	4,529
	$3,332	$1,504

12. General and Administrative Expenses

Sources of the general and administrative expenses are as follows:

(In thousands of dollars)	1980	1979
Land	$1,448	$1,139
Housing	1,945	1,576
Corporate	549	400
Investment properties	215	205
	$4,157	$3,320

13. Contingency

The company has a contingent asset arising from agreements which give the company the right to purchase one-third of the residential lots to be derived from the future subdivision of 550 acres of land in the city of Edmonton at a fixed price substantially less than the present market value.

14. Remuneration to Directors and Officers

Remuneration paid during the year to directors and senior officers of the company and its subsidiaries amounted to $418,000 (1979 — $337,000).

15. Related Party Transaction

During the year, the company purchased land from an affiliated company in the amount of $1,900,000. Included in debt on investment properties is $1,300,000 in respect of this purchase, which is repayable in annual instalments of $275,000 (including interest at 12%) from 1981 to 1986 inclusive. The balance of the agreement payable is due in 1987. The estimated market value of the land at the date of purchase, determined by an independent appraiser, was $2,290,000.

16. Comparative Figures

Certain 1979 comparative figures have been reclassified to conform with presentation adopted in the current year. The 1979 amounts for land revenue, interest on agreements receivable and land expenses have each been reduced from those included in the 1979 annual report to correct an error in eliminating inter-divisional transactions. There is no resulting change in net income.

17. Segmented Information

Because the company is involved in several major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contributions of each activity to the company as a whole.

In the following schedules, net income from operations before tax has been calculated for each division by deducting from the revenues of the division all direct costs and administrative expenses which can be specifically attributed to the division. Common costs which have not been allocated are the cost of corporate debt — $1,966,000 (1979 — $704,000) and general corporate expenses (such as audit, public relations and corporate donations, directors' fees and senior management expenses, etc.). The allocation of these costs on an arbitrary basis to the divisions would not assist in the evaluation of the divisional contributions.

The cash flow from operations by division has been calculated by taking the after-tax contribution to net income of each division and adjusting for non-cash items such as deferred income taxes and depreciation.

EARNINGS — BY DIVISION
(In thousands of dollars)

	1980			1979		
	Revenue	Income	%	Revenue	Income	%
Land	$29,184	$15,316	91.9	$36,407	$15,063	96.6
Housing	25,152	(8)	—	17,831	198	1.3
Investment properties — operations	3,312	106	.6	1,976	88	.6
Investment properties — sale of properties	2,880	1,090	6.5	—	—	—
Other	173	162	1.0	272	251	1.5
	60,701	16,666	100.0	56,486	15,600	100.0
Elimination of inter-division transactions	(626)	2,014		(2,442)	185	
	$60,075	18,680		$54,044	15,785	
Common costs		2,533			1,164	
		16,147			14,621	
Income taxes		7,956			6,865	
Net Income		$ 8,191			$ 7,756	

CASH FLOW FROM OPERATIONS — BY DIVISION
(In thousands of dollars)

	1980		1979	
	After-tax Cash Flow	%	After-tax Cash Flow	%
Land	$8,957	103.5	$11,939	93.2
Housing	45	.5	189	1.5
Investment properties	523	6.0	1,161	9.1
Other	17	.2	134	1.0
Common costs	(886)	(10.2)	(618)	(4.8)
	$8,656	100.0	$12,805	100.0

Geographic Segments

The company operates in the land development industry in Arizona and California through its wholly-owned subsidiary company, Melcor Inc. The following table summarizes the Canadian and U.S. land operations.

(In thousands of dollars)	Canada 1980	Canada 1979	United States 1980	United States 1979	Total 1980	Total 1979
Revenue						
Land sales	**$21,437**	$33,648	**$4,459**	$1,279	**$25,896**	$34,927
Interest income	**3,256**	1,438	**32**	42	**3,288**	1,480
	24,693	35,086	**4,491**	1,321	**29,184**	36,407
Expenses						
Cost of land sales	**9,835**	18,913	**2,572**	1,288	**12,407**	20,201
Administrative expenses	**1,241**	1,006	**220**	137	**1,461**	1,143
	11,076	19,919	**2,792**	1,425	**13,868**	21,344
EARNINGS — LAND DIVISION	**$13,617**	$15,167	**$1,699**	$ (104)	**$15,316**	$15,063

The balance sheet, expressed in Canadian dollars, of the Company's U.S. subsidiaries, is as follows:

(In thousands of dollars)		December 31 1980	December 31 1979
Assets	Agreements receivable	**$ 3,396**	$ 1,053
	Land for development and sale	**15,785**	10,532
	Other assets	**34**	58
		$19,215	$11,643
Liabilities	Bank indebtedness	**$ 9,789**	$ 4,531
	Accounts payable	**303**	320
	Provision for land development costs	**737**	—
	Debt on land for development and sale	**6,558**	6,638
	Deferred income taxes	**820**	—
		18,207	11,489
Shareholders' Equity	Share capital	**311**	281
	Retained earnings (deficit)	**697**	(127)
		1,008	154
		$19,215	$11,643

Land and Property Holdings

Land Development

	Map/ Page	Developed Land: Building Lots	Developed Land: Residential Acres	Commercial Industrial Acres	Land Held For Future Development: Acres	Approximate Date Of Development
Edmonton Region	1/6					
Edmonton	4/6	35	3		49	1981-1984
Spruce Grove	2/6	28	7	20	855	1981-1995
Leduc	3/6	76	6		320	1981-1986
County of Strathcona	5/6				536	1981-1986
County of Parkland	2/6				157	1983-1985
M.D. of Sturgeon	1/6				442	1990-1995
Calgary Region	1/7					
Calgary	2/7	6	3		1,026	1981-1988
M.D. Rockyview	1/7				683	1983-1986
Cochrane	3/7				290	1982-1987
Red Deer Region	4/7					
Red Deer	5/7				199	1981-1985
Blackfalds	4/7				184	1981-1986
Regina	—				70	1982-1985
Lethbridge	6/7				200	1982-1986
Kamloops	—	9			111	1982-1985
Phoenix	3/8				448	1981-1985
California	4/8				620	1982-1986
Other	—			3	65	1981-1985
		154	19	23	6,255	
Land Under Option						
Edmonton	1/6				175	1981-1986
Blackfalds	4/7				275	1985-1995
Calgary	—				480	1986-1991
December 31, 1980		**154**	**19**	**23**	**7,185**	
December 31, 1979		319	51	35	5,981	

Land and Property Holdings

Investment Properties

Commercial Properties

Kingsway Building, Edmonton	7,000 sq. ft. purchased in 1967
Melton Building, Edmonton	116,700 sq. ft. constructed in 1973
Grove Plaza Shopping Centre, Spruce Grove	41,000 sq. ft. constructed in 1973
Corinthia Park Shopping Centre, Leduc	12,000 sq. ft. constructed in 1975
Airport Road Building, Edmonton	47,000 sq. ft. purchased in 1977
Westcor Building, Edmonton	73,000 sq. ft. constructed in 1978
McNamara West, Edmonton	41,500 sq. ft. constructed in 1978
Franklin Park Phase I, Calgary	99,000 sq. ft. constructed in 1978
Franklin Park Phase II, Calgary	84,779 sq. ft. constructed in 1980
Albert Street Building, Regina	6,200 sq. ft. constructed in 1979
Woodhaven Centre, Spruce Grove	7,000 sq. ft. constructed in 1980
Kensington Road, Calgary	23,800 sq. ft. constructed in 1980

Residential Property

Brookwood Manor, Spruce Grove	24 units constructed in 1973

Land for Future Development

Calgary	
Forest Lawn	1.00 acres, commercial/retail
Downtown Central	.37 acres, office
Franklin Park	2.54 acres, office/warehouse
Stampede Drive-In	11.95 acres, office park
Downtown Central	.29 acres, office
14th Street N.W.	.31 acres, office
Edmonton	
Cascade Business Park	7.20 acres, office/warehouse
105 Street	.52 acres, commercial/retail
108 Street	1.19 acres, office
121 Street	1.84 acres, office/retail
University Ave. & 104 St.	.53 acres, office/retail
Spruce Grove	
Parkland Centre	10.54 acres, shopping centre
Regina	
University Park	6.30 acres, shopping centre and multi family
Victoria Avenue	3.79 acres, commercial/retail
Albert Street	.38 acres, office/retail

Residential Construction

Houses under Construction	1980	1979
Edmonton Region	**55**	84
Calgary	**72**	67
Red Deer	**19**	13
Regina	**13**	19
Saskatoon	**9**	9
	168	192

Lots for Future Development	1980	1979
Edmonton Region	**85**	108
Calgary	**12**	68
Red Deer	**14**	27
Regina	**29**	38
Saskatoon	**8**	9
	148	250

Divisional Operating Review

(In thousands of dollars)	**1980**	1979	1978	1977	1976
Source:					
Land					
Sales	**$25,896**	34,927	25,048	14,914	13,904
Cost of sales	**12,407**	20,201	12,233	7,841	6,369
	13,489	14,726	12,815	7,073	7,535
Interest earned	**3,288**	1,480	1,360	913	624
Other income	**—**	—	9	34	19
	16,777	16,206	14,184	8,020	8,178
Administrative expenses	**1,461**	1,143	563	475	389
Net income before taxes	**$15,316**	15,063	13,621	7,545	7,789
Housing					
Sales	**$25,152**	17,831	13,667	17,602	11,142
Cost of sales	**23,163**	16,024	12,517	16,236	9,042
	1,989	1,807	1,150	1,366	2,100
Administrative expenses	**1,997**	1,609	1,186	1,151	883
Net income (loss) before taxes	**$ (8)**	198	(36)	215	1,217
Investment properties					
Rents	**$ 3,312**	1,976	1,708	1,697	2,109
Operating expenses	**1,482**	862	770	638	750
Interest	**1,367**	742	544	519	677
Depreciation	**142**	79	68	65	93
	2,991	1,683	1,382	1,222	1,520
	321	293	326	475	589
Administrative expenses	**215**	205	107	112	93
Net operating income	**106**	88	219	363	496
Gain on sale of properties	**1,090**	—	—	—	625
Net income before taxes	**$ 1,196**	88	219	363	1,121

Statistical	**1980**	1979	1978	1977	1976
Earnings per share, fully diluted					
— Before extraordinary items	**$ 2.87**	2.78	1.93	1.45	1.66
— For period	**2.87**	2.78	1.93	1.89	2.78
Shares issued					
— End of year (000's)	**2,887**	2,770	2,767	2,766	2,761
Shareholders' Equity					
— Per Share	**13.43**	11.28	9.04	7.60	6.13
— Total (000's)	**38,760**	31,250	25,005	21,035	16,917
Dividends per share	**.70**	.56	.50	.40	.36
Cash flow per share	**3.00**	4.57	2.01	1.81	2.04
Share price range	**$25-12**	16-11⅛	14¼-6½	7⅞-4¼	5¼-3⅝

Five Year Review

(In thousands of dollars)	**1980**	1979	1978	1977	1976
Financial Position					
Agreements receivable	**$ 21,664**	25,900	10,927	11,968	8,857
Accounts receivable	**2,585**	1,921	1,199	660	503
Note receivable	**—**	—	1,840	2,344	2,890
Land for development and sale	**84,035**	74,597	67,948	40,844	38,238
Investment properties	**35,769**	31,322	18,522	12,472	11,256
Other assets	**474**	422	198	188	280
Total Assets	**$144,527**	134,162	100,634	68,476	62,024
Bank indebtedness	**$ 20,038**	17,911	13,722	7,860	7,573
Accounts payable	**9,438**	6,984	4,414	4,074	3,884
Provision for land development costs	**6,018**	8,032	11,757	6,142	4,412
Debt on land for development and sale	**39,781**	43,497	28,955	17,895	18,019
Debt on investment properties	**20,210**	17,592	12,799	7,835	7,901
Deferred income taxes	**10,282**	8,896	3,982	3,635	3,319
Share capital	**4,339**	2,999	2,959	2,957	2,940
Retained earnings	**34,421**	28,251	22,046	18,078	13,976
Total Liabilities & Equity	**$144,527**	134,162	100,634	68,476	62,024
Operations					
Revenue					
Land	**$ 28,034**	32,888	17,252	13,197	12,562
Housing	**25,152**	17,831	13,667	17,602	11,142
Investment properties	**3,312**	1,976	1,706	1,647	2,028
Interest on agreements receivable	**2,824**	1,077	1,133	871	584
Other	**753**	272	335	459	620
	60,075	54,044	34,093	33,776	26,936
Expenses					
Land	**11,556**	17,578	7,383	6,194	5,752
Housing	**23,163**	16,024	12,500	16,225	9,042
Investment properties	**1,482**	862	771	638	751
Interest	**3,332**	1,504	1,017	957	1,157
General and administrative	**4,157**	3,320	2,234	2,148	1,811
Depreciation	**238**	135	103	81	106
	43,928	39,423	24,008	26,243	18,619
Income before income taxes	**16,147**	14,621	10,085	7,533	8,317
Income taxes	**7,956**	6,865	4,733	3,537	3,917
	8,191	7,756	5,352	3,996	4,400
Extraordinary items	**—**	—	—	1,209	2,961
Net income	**$ 8,191**	7,756	5,352	5,205	7,361

Corporate Directory

Directors

D.A. Carlson, P.Eng.
Chairman, A.V. Carlson Construction Corp. Ltd., Edmonton

D.L. Croteau, B.Comm.
Vice-President
Melcor Homes

W.G. Holmes, C.A.
Vice-President Finance & Secretary-Treasurer
Melcor Developments Ltd.

Senator E.C. Manning, P.C., C.C.
Chairman, Manning Consultants Limited, Edmonton

A.L. Melton, B.Sc., A.L.S.
Survey Engineer, Shell Canada Limited, Calgary

T.C. Melton, B.Comm.
Chairman & President
Melcor Developments Ltd.

W.C. Willetts, C.A.
Company Director
Edmonton, Alberta

R.B. Young, P.Eng., M.B.A.
Vice-President,
Melcor Developments Ltd.

T.A. Zaharko, B.Comm.
Vice-President,
A.E. LePage (Prairies) Ltd.

Officers

T.C. Melton, *President*
R.B. Young, *Vice-President*
W.G. Holmes, *Vice-President Finance & Secretary-Treasurer*
M.G. Ostopowich, *Corporate Controller*

Land Development

W.P. Daly, *Regional Manager, Edmonton*
D.R. Erickson, *Regional Manager, Calgary*
J.R. MacKenzie, *Controller*
R.G. Taunton, *Regional Manager, Phoenix*

Residential Construction

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R.A. Gibbons, *Regional Manager, Edmonton*
K.O. Lovig, *Controller*
N.A. Park, *Regional Manager, Calgary*
B.W. Scarrow, *Regional Manager, Regina & Saskatoon*

Investment Properties

B.C. Eagar, *Regional Manager, Calgary*
I.D. MacLeod, *Regional Manager, Edmonton*

Share Transfer Agents

Royal Trust Company
Edmonton, Toronto

Share Listing

Toronto Stock Exchange

Auditors

Coopers & Lybrand

Corporate Office

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Edmonton, Alberta T5J 1Y8

Branch Offices

Edmonton
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Edmonton, Alberta T5S 1E6

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Calgary, Alberta T2N 3P9

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Regina, Saskatchewan S4P 2A2

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Printed in Canada


MELCOR
DEVELOPMENTS
LTD.

Consolidated Statement of Source and Use of Cash

FOR THE SIX MONTHS ENDED JUNE 30, 1980
(with comparative figures for the six months ended June 30, 1979)
(unaudited)

	1980	1979
	— (000) —	
Source of Cash		
Operations	**$ 4,795**	$ 887
Agreements and mortgages receivable	**3,575**	1,938
Note receivable	**—**	252
Operating and project bank loans	**4,196**	4,346
Proceeds from debt on land for development and sale and housing	**5,953**	14,480
Proceeds from debt on investment properties	**2,837**	5,445
Share capital, net of employee share purchase plan loans of $1,287 in the current period	**53**	40
	$21,409	$27,388
Use of Cash		
Dividends	**$ 1,010**	$ 776
Land for development and sale, net of the changes in the provision for development costs	**8,042**	11,064
Investment properties	**1,827**	6,542
Payments on debt on land for development and sale	**6,401**	8,111
Payments on debt on investment properties	**1,565**	28
Other operating assets and liabilities	**3,349**	1,813
	$22,194	$28,334
Decrease in cash	**$ 785**	$ 946
Bank overdraft, beginning of period	**1,321**	671
Bank overdraft, end of period	**$ 2,106**	$ 1,617

MELCOR DEVELOPMENTS LTD.
#900 - 10310 Jasper Avenue, Edmonton, Alberta T5J 1Y8
(403) 423-6931

MELCOR DEVELOPMENTS LTD.

File

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1980

Report to Shareholders

Net income for the six months ended June 30, 1980 was $2,601,000 or $ .93 per share compared with $1,416,000 or $ .51 per share for the same period last year.

The housing division has increased their unit sales and gross revenue and there are positive signs that net income will improve during the balance of the year.

Sales in the land division were from our subdivisions in Calgary, Edmonton, Spruce Grove and Leduc. Lower interest rates on residential mortgages are assisting builders to reduce their inventory which should enable us to increase our lot sales in the second half.

The investment properties will have a higher occupancy level during the balance of the year which will improve our net income.

We believe that second half revenue and income will produce satisfactory results for the year.

On behalf of the Board of Directors

T. C. Melton
President

July 30, 1980

Consolidated Statement of Income

FOR THE SIX MONTHS ENDED JUNE 30, 1980
(with comparative figures for the six months ended June 30, 1979)
(unaudited)

	1980		1979	
	Gross Revenue	Net Income	Gross Revenue	Net Income
	— (000) —		— (000) —	
BY DIVISION				
Housing	$11,725	$ 189	$ 7,270	$ 233
Land	7,829	4,205	4,266	2,609
Investment properties	1,581	104	914	99
Other	24	14	131	90
	21,159	4,512	12,581	3,031
Elimination of interdivision transactions	(162)	1,268	—	370
	$20,997	5,780	$12,581	3,401
Common costs		579		713
		5,201		2,688
Income taxes		2,600		1,272
		$2,601		$1,416
Earnings per share		$ .93		$ .51
Included in the above are the following expenses:				
Interest		$1,011		$ 856
Depreciation		74		38
		$1,085		$ 894

Consolidated Balance Sheet

JUNE 30, 1980
(with comparative figures as at June 30, 1979)
(unaudited)

ASSETS	1980	1979
	— (000) —	
Agreements and mortgages receivable	$ 22,325	$ 8,990
Amounts receivable	2,137	720
Income taxes recoverable	703	—
Other assets	613	595
Land for development and sale	83,048	82,037
Investment properties	33,087	25,064
Note receivable	—	1,588
	$141,913	$118,994

LIABILITIES	1980	1979
	— (000) —	
Bank indebtedness	$ 33,292	$ 19,015
Amounts payable	1,621	1,690
Income taxes payable	—	729
Deposit	2,300	—
Provision for land development costs	7,267	15,675
Debt on land for development and sale	33,372	34,532
Debt on investment properties	18,864	18,216
Deferred income taxes	11,016	3,452
	$107,732	$ 93,309
SHAREHOLDERS' EQUITY		
Share capital	$ 4,339	$ 2,999
Retained earnings	29,842	22,686
	$ 34,181	$ 25,685
	$141,913	$118,994